



## **TOWN OF SHARON, MASSACHUSETTS**

Management Letter  
For the Year Ended June 30, 2020

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To the Select Board  
Sharon, Massachusetts

In planning and performing our audit of the basic financial statements of the Town of Sharon, Massachusetts (the Town), as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged

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with governance. Significant deficiencies are noted in the table of contents and comment headings.

During our audit, we also became aware of other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The recommendations that accompany this letter summarize our comments and suggestions concerning those matters.

The Town's written response to our comments and suggestions has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Select Board and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Melanson*

January 15, 2021



## 1. Improve Controls over Payroll Disbursements (Significant Deficiency)

The Town's management is responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, including control over disbursements that reduce risk to an appropriate level.

During our testing and evaluation of the School Department's payroll disbursement process, we noted several areas where controls and procedures should be improved, including:

- "Personnel Action Forms" should be created to document employee payroll information, including authorizations of new employees, salary adjustments, and employee terminations.
- Individual employees should maintain time sheets and formal approval should be documented by department heads on the time sheets.
- All stipends paid to the Superintendent, which are not specified in the employment contract, should be authorized by the School Committee.

As a result of the weakness in the design and implementation of controls over payroll disbursements, there is a risk that errors or irregularities could occur and go undetected in a timely manner.

We recommend the School Department implement a corrective action plan to improve control over the payroll disbursement process.

### ***Town's Response:***

The School Department is aware of these control deficiencies and is taking the following corrective measures.

- The School Department payroll staff and the Business Manager have since been replaced;
- All existing employment contracts are being reviewed;
- Individual employee timesheets will be approved and retained;
- All stipends will be incorporated into respective contracts or may have a side agreement; and
- School Department in conjunction with the Town will continue to monitor these issues.

## 2. Establish Fiscal Policy Goals

The Town currently does not have formal written policies establishing financial guideline levels and spending criteria for the general fund, enterprise funds, and stabilization fund. As a result, there is a risk that fund balance levels could fall below the levels recommended by financial advisors, thereby risking a reduction in the Town's bond rating.

We recommend the Town establish long-term fiscal policy goals, including issues such as established thresholds for general fund unassigned fund balance, free cash, general stabilization, and enterprise fund net position balance levels, as well as plans to stabilize future tax and utility rates. This will help ensure adequate resources exist for funding unexpected costs, minimize future interest costs through continued strong bond ratings, and provide resources to deal with the effects of future downturns in the regional economy.

### ***Town's Response:***

The Town administration is very keen to protect Town's bond ratings. The current bond ratings and their ability to borrow large sums at a historically low rate of under 2% for the High School and Library projects is a reflection on the Town's conservative fiscal policies.

The Town follows a very rigorous budgeting process to ensure the incremental expenditures stay within the incremental revenues. The budgetary resources are very carefully allocated on a rational basis by the Town's Priority Committee comprising of the Select Board, FINCOM, and the School Committee.

The FINCOM and the Select Board have approved guidelines to limit non-exempt debt service at 6% of the ensuing year's estimated appropriations; initiated a practice of funding increasing annual capital purchases within in the annual operating appropriations rather than issuance of new debt; and set a goal of increasing the unassigned general fund balance and stabilization funds at 5-8% of the overall budget. They have also set a goal of increasing OPEB fund contributions.

The financial statements of the last few years demonstrate the impact of these policies.

The Town will work on formalizing these policies.